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REVIEWS AND NEW BOOKS

General Works, Theory and its History

Principles of Economics. By F. W. TAUSSIG. Two volumes.
(New York: The Macmillan Company. 1911. Pp. xxxv,
547; xviii, 573.)

Seldom does a writer state the purpose of his work more clearly than does Professor Taussig in the preface to his *Principles of Economics*; seldom does a writer accomplish his purpose more precisely than Professor Taussig has done. The words "more precisely" are well-considered, for in the main the author limits himself in his work to his expressed intention, giving, however, full measure; and in a few places going even beyond what he promises. It is then well to begin a review with a presentation of the main points in his own statement.

"I have tried in this book to state the principles of economics in such form that they shall be comprehensible to an educated and intelligent person who has not before made any systematic study of the subject. Though designed in this sense for beginners, the book does not gloss over difficulties or avoid severe reasoning. No one can understand economic phenomena or prepare himself to deal with economic problems who is unwilling to follow trains of reasoning which call for sustained attention. I have done my best to be clear, and to state with care the grounds on which my conclusions rest, as well as the conclusions themselves, but have made no vain pretense of simplifying all things.

". . . Some topics to which economists give much attention in discussion among themselves receive scant attention or none at all. I have omitted entirely the usual chapters or sections on definition, methodology, and history of dogma; and have said little on such a topic as the subjective theory of value, which in my judgment is of less service for explaining the phenomena of the real world than is supposed by its votaries. These matters and others of the same sort are best left to the professional literature of the subject. I hope this book is not undeserving the attention of specialists; but it is meant to be read by others than specialists."

Professor Taussig's book can be warmly commended to the general reader. It presents clearly and concisely the main conclusions reached by modern economists and gives the rational basis of their conclusions. It is designed as a guide for thought and action, and the author takes the position that it is desirable to apply the pragmatic test of truth in economics, *viz.*, that it works out satisfactorily in actual life. Notice, for example, the final

words of the chapter on the Nature and Definition of Capital, in which he gives reasons for a differentiation between interest and rent as distinct categories:

“ . . . Economics is in a special sense a pragmatic subject. Its truths are eminently truths in the sense that they concern us. Its answers are answers that declare what we should do. As to any question of classification and distinction, the test of truth is, what of it? what follows? In economics the consequences that follow are ultimately consequences for general welfare and public regulation. So considered, the question whether income-yielding property is homogeneous, and all the sorts of income essentially of the same sort, is to be answered in the negative.”

No modern treatise can be pronounced more unreservedly “safe and sane,” and these words are to be taken as high praise. Common sense characterizes the entire treatise in such an unusual degree as to make the common sense something after all not common—to paraphrase a familiar expression. Again and again Professor Taussig cuts a Gordian knot of theoretical refinements by common sense. His discussion of index numbers serves as an illustration. He discusses the arithmetic average, the weighted average, and the geometric mean and then shows that the simple arithmetic average is as satisfactory as it is easy. (Cf. I, pp. 292-4.) His treatment of money is likewise a thoroughly common sense treatment which must appeal strongly to the man of affairs. After discussing the highly theoretical proposal of international paper money which should replace specie, Professor Taussig dismisses it all in these words: “The change is not unthinkable, and it appeals to those who like abstract speculation and ideal construction. As a proposal of anything practicable, it is not worth discussion.” (Cf. I, p. 326.) Of similar character is his objection to convertible government paper as a dangerous device, the disadvantages of which outweigh the advantages.

When it is said that the work under discussion presents the conclusions of economists, it is not meant that all economists would assent to all conclusions. While dissent to many propositions must be expected, it is true that for most purposes of direct concern to him the man of affairs will find assent to Professor Taussig's proposals and views among the great body of economists in this and other countries; and no other book better illustrates the progress economics has made during the past quarter of a century. Views are presented in nearly every chapter which would

have awakened loud protest twenty-five years ago and led to denunciation of their author as a dangerous theoretical and practical man but which now pass unchallenged. The pragmatic and therefore ethical position taken, the treatment of trade-unions and the closed shop, the fair-minded discussion of bimetallism and paper money, the attitude towards theoretical socialism and the concessions to the protective tariff, all afford illustration which could be multiplied indefinitely.

Professor Taussig holds no brief for any economic class or party, but is striving simply for truth. If timidity is suggested in the book, it is not with respect to any practical application of economic truths, but with respect to pure theory. Undoubtedly Professor Taussig is a careful rather than a bold thinker. At times, indeed, it seems to me Professor Taussig goes too far in concessions to practical programs of reform in his endeavor to be fair. As instances, I would cite his concession to the single tax and the opponents of private property in land. It would have been well to point out more clearly how the single tax might be expected to affect the interests of small property holders and for the great masses the prospects of becoming owners of property. I would cite also his concessions to those who argue in favor of something approaching equality of incomes, while fully endorsing all that is indirectly and by implication said against the extent of present inequalities. The argument that high wages and salaries far above average incomes are in very many cases returns, full or partial, for high cost of producing these services, could well be amplified and strengthened. Who has the better chance of saving a part of his income, a university instructor with an income of \$1,500 a year, or a stone-mason with the same income?

Among the many things I would be glad to quote are excellent passages on inequality and maximum human happiness found on pages 136 and 137 of volume I.

It is difficult to criticise the book theoretically, and that precisely on account of its nature. Intentionally, contentions of interest primarily to scholars are largely omitted, and attention given to practical points of agreement. A theoretical critique, if exhaustive, would be of great length, for it would necessitate the treatment of endless detailed points, as the book is characterized by no large outstanding and possibly epoch-making theories. Among the views with which I am especially inclined to take issue

the following may be mentioned; the importance attributed to large-scale production *per se* in limiting competition—and that without any satisfactory proof or intimation of proof in deductive or inductive reasoning. And naturally enough, in connection with this I feel that the whole discussion of monopoly might have been more clear-cut and that more sharply defined conclusions could have been reached.

The scope of economics as presented by Taussig is far wider than American and English economists accepted twenty-five years ago, the enlargement being found particularly in its ethical and teleological aspects, and yet in my opinion it is too narrow. Especially does the book suffer, in my opinion, by a neglect of any theoretical and practical discussion of public expenditures; for surely if distribution belongs to economics, public expenditures must be a part of economics, for it is through public expenditures that a large and ever-increasing social income reaches us. One year we pay for sweeping the streets in front of our houses by a private contribution; the next year we pay for it in a tax, and the public expenditure resulting gives us the service. The line constantly fluctuates between private and public expenditures, and these affect appreciably wages and salaries. At times, we could suppose that Professor Taussig considered the expenditure of wealth collected by taxation of no vital significance. (See in this connection pp. 548 and 549 of volume II.) When he discusses the minimum of interest in relation to taxation, he does so without reference to the use made of the wealth collected. Let us suppose that half of the money I receive in interest is taken by taxation, and the expenditure of that half is of no direct material benefit to me. Now let us suppose that that expenditure relieves my private budget by the whole amount of the tax in providing clean streets, good sanitary conditions preventing expensive illness, in furnishing free public schools in the place of private schools with high tuition, etc. Must not that be taken into account? I do not believe, for my part, that we can have an entirely satisfactory theoretical discussion of production, nor of distribution, if, in the present age of the world, expenditures are neglected; and also I believe that unfortunate practical consequences may result therefrom.

Professor Taussig's style is on the whole lucid and pleasing, and that makes the more regrettable occasional unfortunate slips and

mannerisms, of which the incessant repetition of "whether or no" is one of the worst. The publishers, however, deserve a word of criticism for putting out so poorly printed a book; the frequent omission of letters in words being the worst fault to be noticed.

The critique has necessarily been general in character, the nature of the book compelling this. In conclusion, I do not hesitate to congratulate the author on his success; the intelligent business man and the public man on having so reliable and readable a guide; and American scholars on the noteworthy achievement of one of their number.

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The Science of Wealth. By J. A. HOBSON. Home University Library, No. 11. (New York: Henry Holt and Company. 1912. Pp. viii, 256. \$.75.)

In this volume Mr. Hobson gives a concise account of the structure and functioning of the modern industrial system. The method and results of the author's earlier work, *The Industrial System*, are here repeated. In the first four chapters is presented a schematic view of the industrial system, designed especially to show the interdependence of industries and of productive functions. This is followed by an analysis of distribution in terms of "costs" or maintenance charges for labor, managing ability, capital and land; "productive surplus," or additional payments necessary to evoke quantitative increase or qualitative improvement in production; and "unproductive surplus," or rents, excessive profits, interest and wages, which ends in uneconomic or wasteful consumption. Chapters 7 and 8 deal with wages and profit in the concrete. The latter expresses the author's conviction that a large part—perhaps the major part—of the unproductive surplus takes the form of entrepreneur's profits. Chapters 9 and 10 give an elementary statement of the forces governing prices; chapter 11 treats of socialism and the labor movement, and lays the basis for the author's favorite doctrine that the unproductive surplus is the one appropriate and adequate source of public revenue. Graduated income taxes and inheritance taxes are proposed as the most feasible means of reaching the unproductive surplus. A state must, however, proceed cautiously in its plan of confiscating the surplus, since otherwise much capital would migrate to more friendly states.